FROM SELL-IN TO SELL-OUT

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PRESENT: BUILDING ON SUCCESS 2017

BREAKTHROUGH RESULTS FOR GOVERNMENT AND BUSINESS

Orthodoxy

- Orthodoxy is everything we do, we don´t know why we do, but we keep doing it

- Orthodoxies are related to technology constraints

Most of the current business rules were created under a technology constraint

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Once the constraint was removed, the business rules remained the same
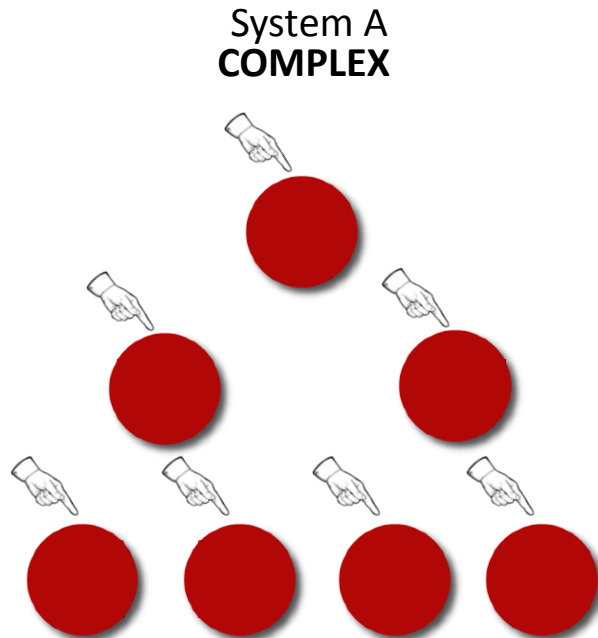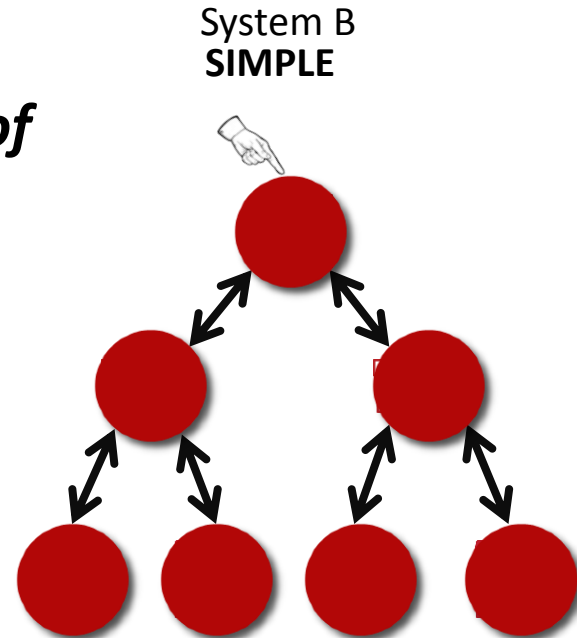
Orthodoxy

CHECK-IN
12H

Hotel

?

CHECK-OUT
12H

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Simple System or Complex System

Which is the most complex system?

System A
COMPLEX

Degrees of freedom

System B
SIMPLE

Conflict in the Supply Chain

Conflict in the Supply Chain

B
Maximize individual short-term profitability

D *Power Play*   **Sell-in**
Focus on impact to my link

A
Maximize profitability of all links in the supply chain

CONFLICT

C
Protect (or maximize) longer-term sales

D´ *Win Win*   **Sell-out**
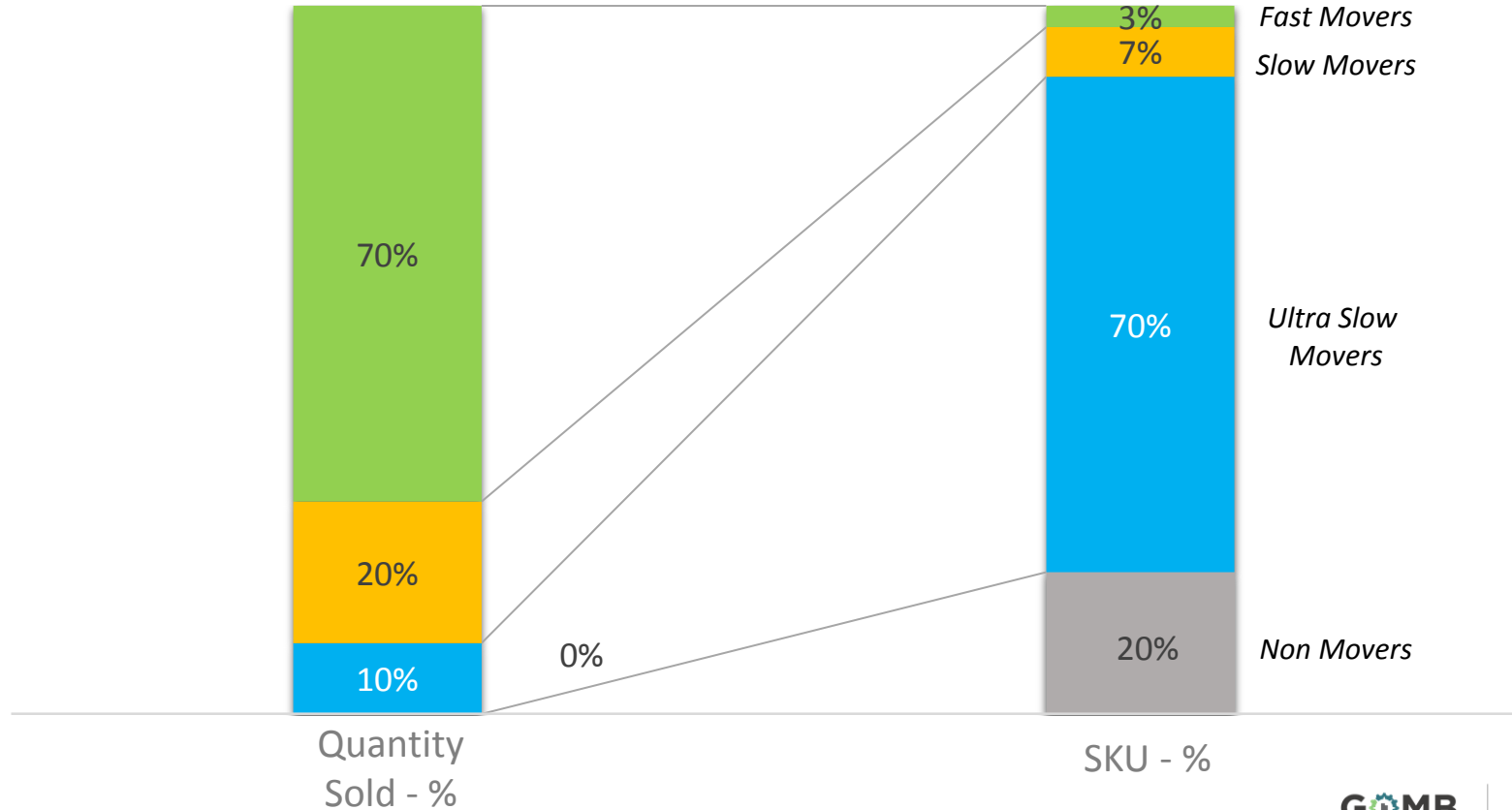Focus on impact to all links
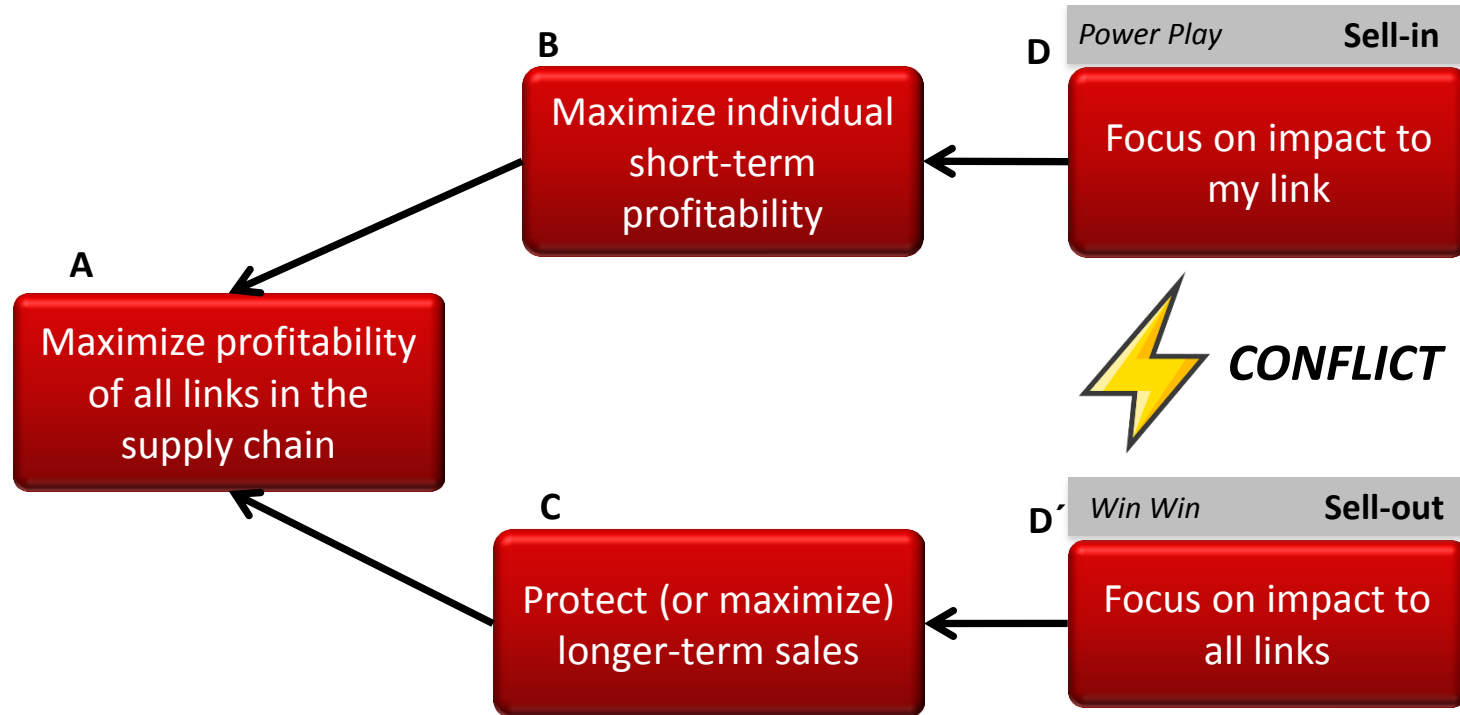
Until the end-consumer buys, nobody sold

Quantity Sold X SKUs

Case Study - Activity Level

5 Stores - Period: 01/01/2017 to 04/30/2017

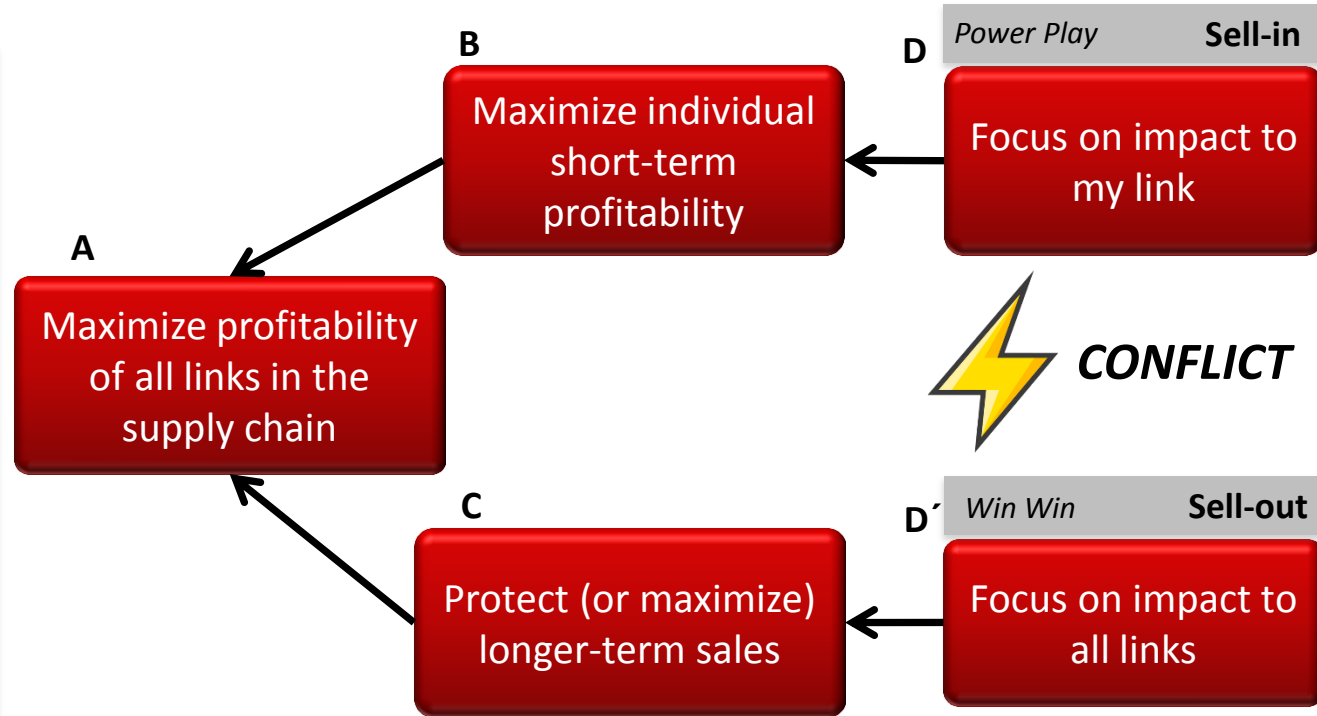| Activity Level	%SKUs	SKUs Qty.	Sales ($)	Inventory ($)	Inventory Turns	Margin ($)	Return on Iventory	Out-of-stock	On Shelf Availability
Fast Movers	3%	1.427	38.581.484	9.490.213	39	7.512.223	79%	3,38%	93,97%
Slow Movers	7%	3.928	20.580.704	10.311.874	15	7.335.075	71%	5,88%	93,67%
Ultra Slow Movers	70%	36.947	29.775.852	39.390.484	6	10.174.844	26%	9,96%	94,27%
Non Movers	20%	10.680	0	18.052.874	0	0		9,96%	
TOTAL	100%	52.982	88.938.039	77.245.445	10	25.022.142	32%	9,36%	94,20%

Solving the Conflict
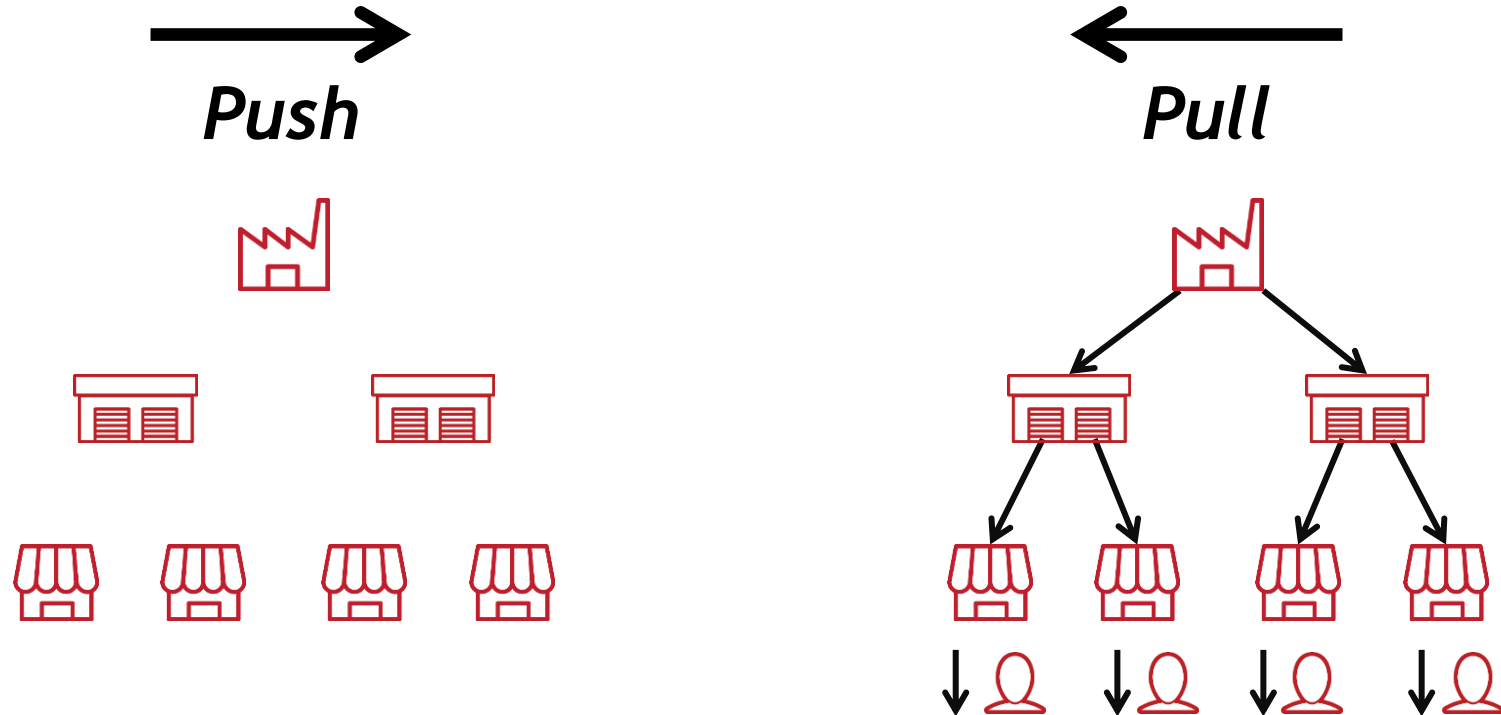
Conflict in the Supply Chain

Direction for eliminating the conflict:
Focus on the impact to next link

- *Which, when the whole chain is synchronized to actual end consumer demand, is the same as focusing on both individual and all links*
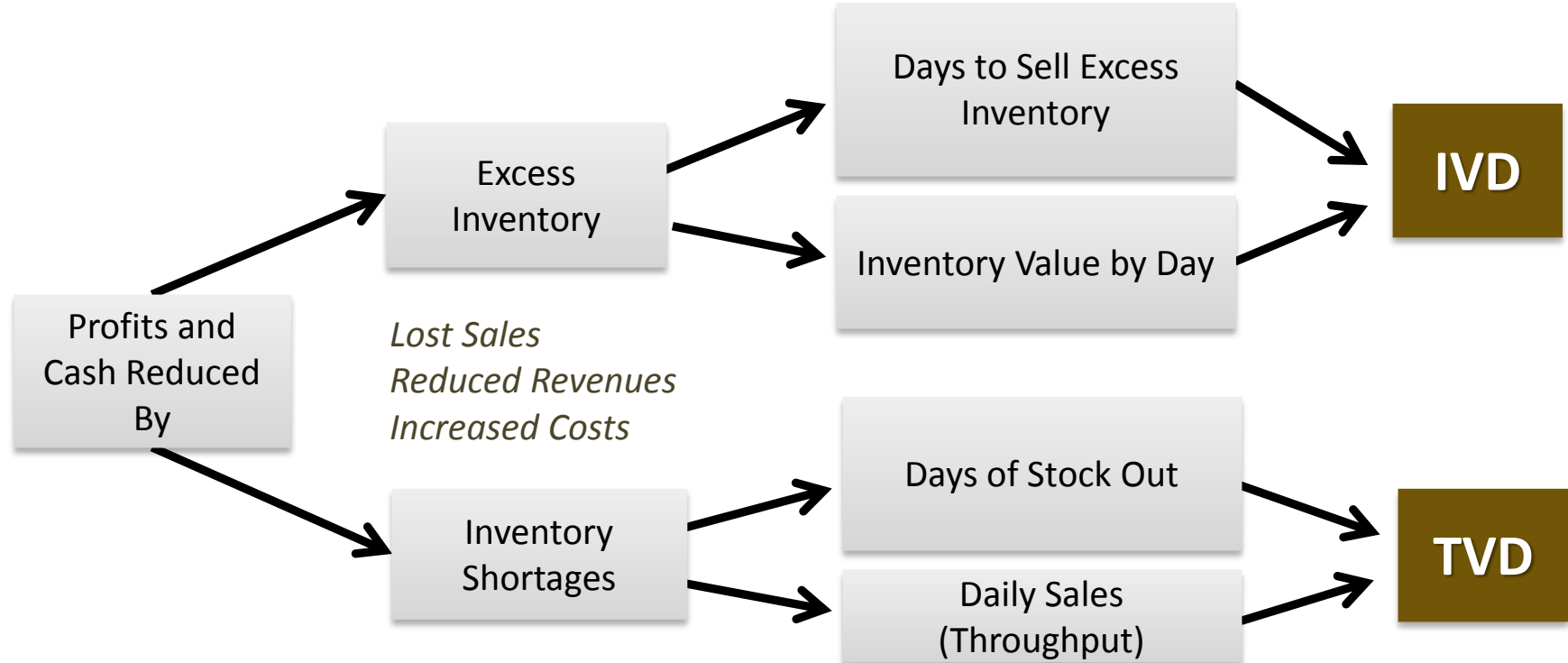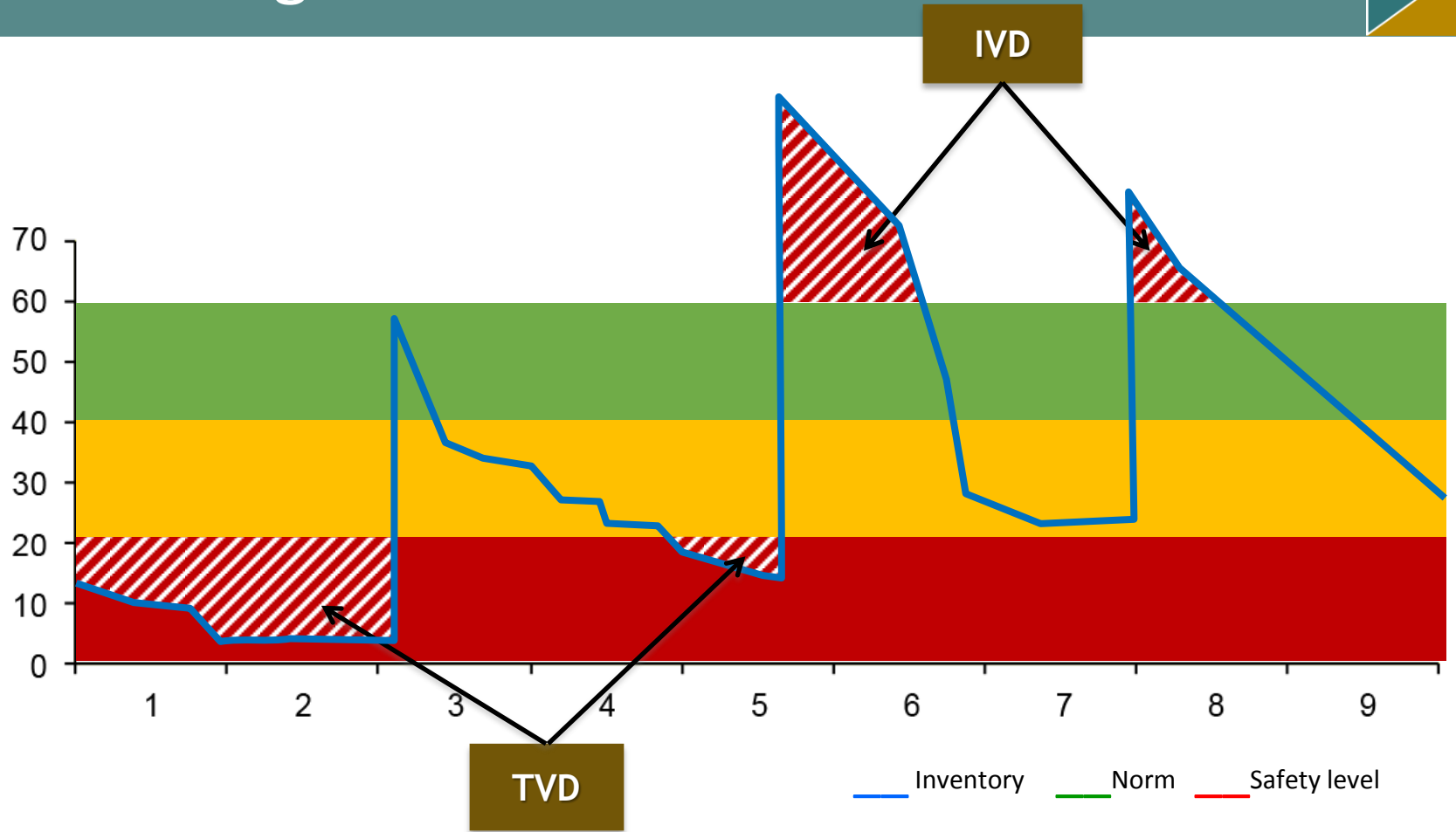- *Today, we can accomplish this with technology*

B Maximize individual short-term profitability

A Maximize profitability of all links in the supply chain

C Protect (or maximize) longer-term sales

D *Power Play* **Sell-in**
Focus on impact to my link

D´ *Win Win* **Sell-out**
Focus on impact to all links

⚡ *CONFLICT*

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Push

Pull

Illustrating TVD and IVD

TVD

IVD

Focus on impact in all links

Information to guide right actions

TVD / IVD

Buyer

Production Manager

Logistics Manager

Sales Manager

Buyer

Logistics Manager

Store Manager

Consumer

Sell-in

Sell-out

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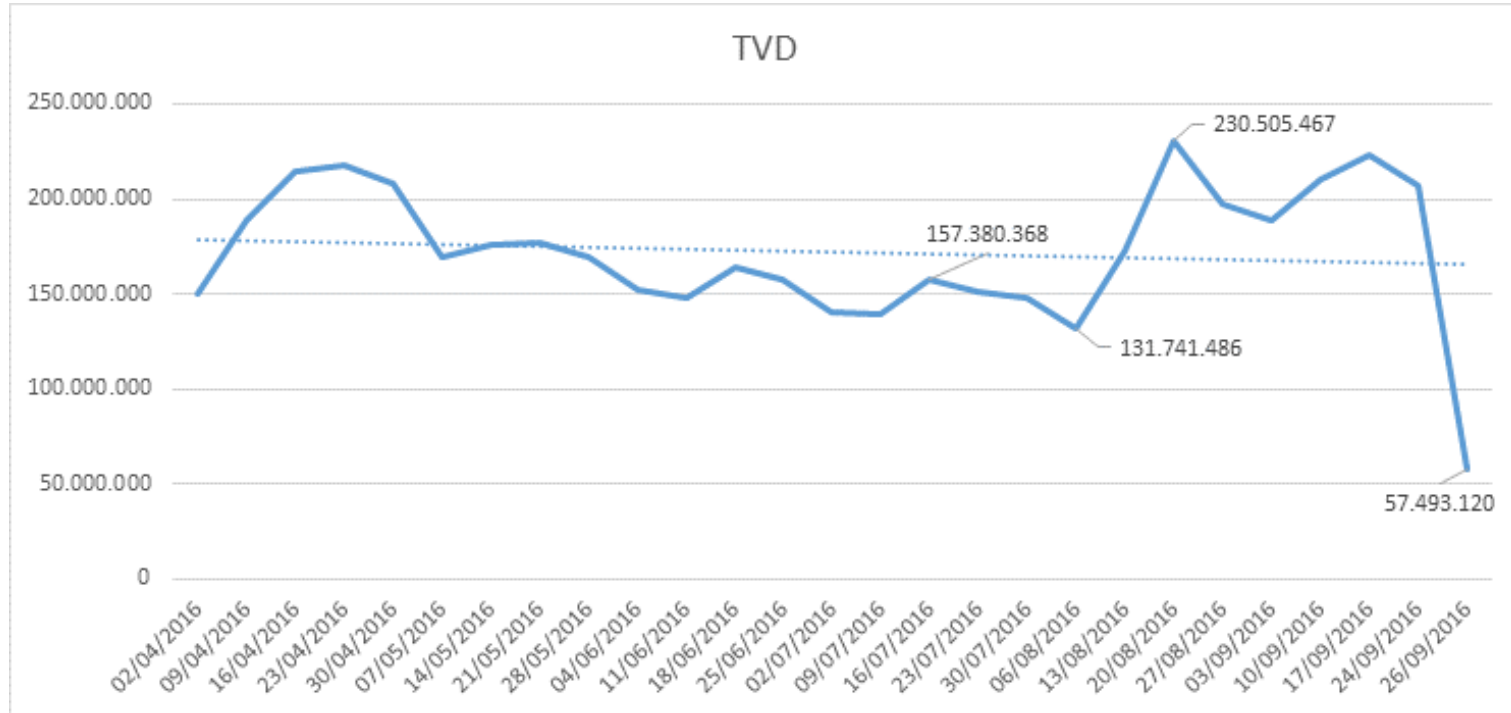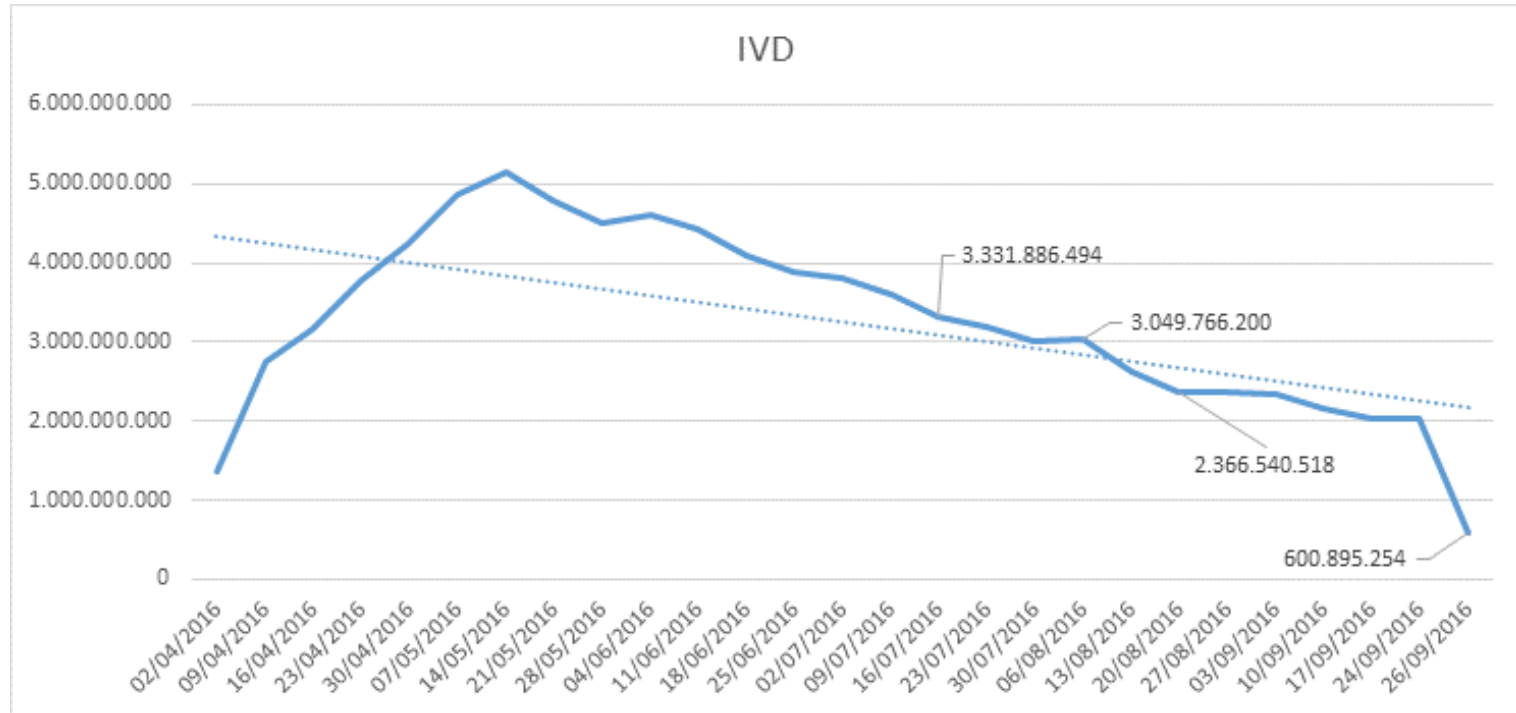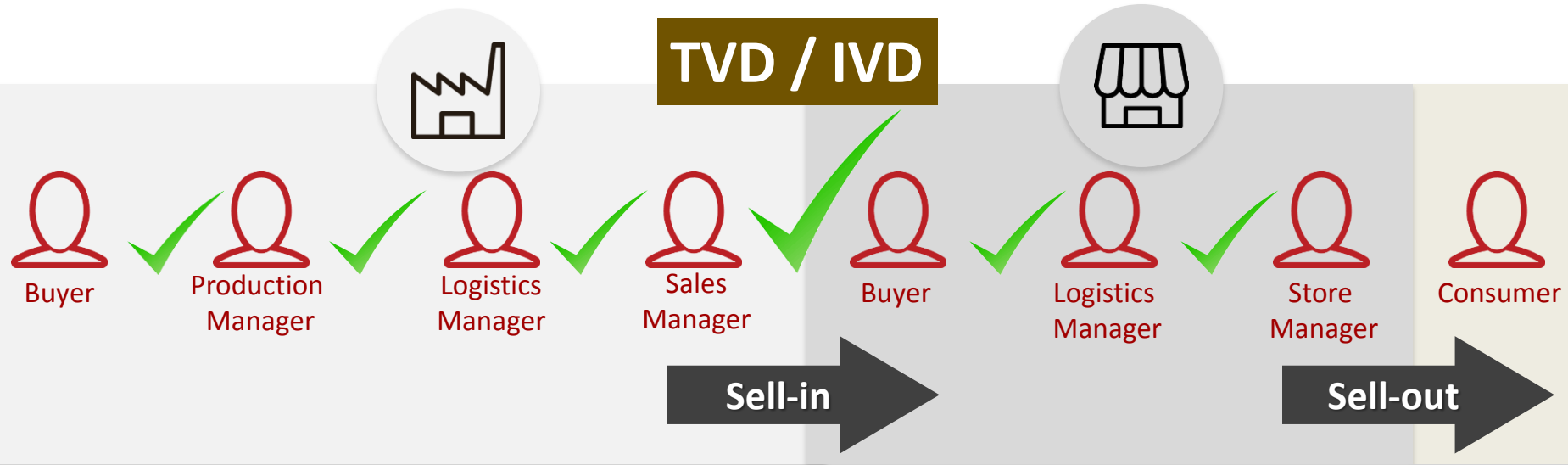
Breaking the Orthodoxies
Changing Company Rules

Focus on impact
in all links

Share Sell-Out
Data

Orthodoxy

- Orthodoxy is everything we do, we don´t know why we do, but we keep doing it

- Orthodoxies are related to technology constraints

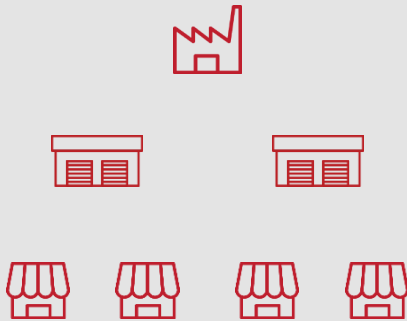*Most of the current business rules were created under a technology constraint*

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Once the constraint was removed, the business rules remained the same

Inventory Location

Sell-In

Orthodoxy

- Hold as much as possible at the stores (points of sales)

- Warehouses used as cross-docking locations rather than stocking locations
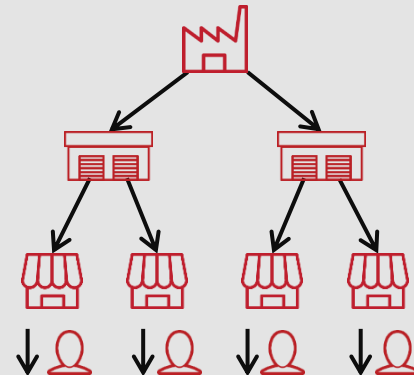

Orthodoxy fueled by
- Inventory measures (balance sheet)
- Who "owns" the inventory?

Sell-Out

Leveraging Technology

- Hold only enough at the store to sell during the short replenishment time from the closest warehouse

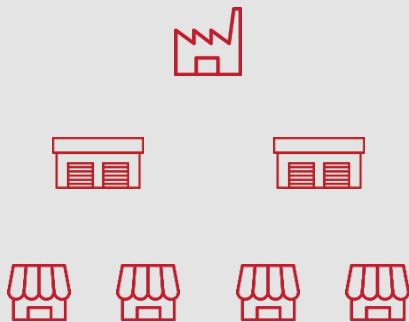- Warehouses used as aggregation points for fast, flexible replenishment

Orders/Replenishment

Sell-In

Orthodoxy
- Large orders placed relatively infrequently
- Quantity discounts and due dates per order
- Shipments according to order due dates
- Invoices & payments per shipment
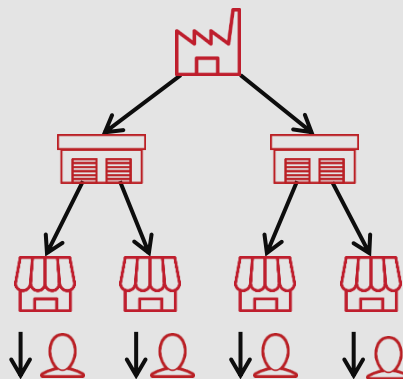
Orthodoxy fueled by
- Purchasing measures
- Purchase price variance
- "Economic Order Quantities"
- Sales measures
- Structures for commissions & bonuses

Sell-Out

Leveraging Technology
- Contracts based on unit prices
- Discounts based on aggregated (estimated) volumes
- Automated replenishment triggered by actual consumption
- Payment terms according to average inventory

Selling

Sell-In

Orthodoxy

- Push for more big orders
- Price discounts based on large volume orders
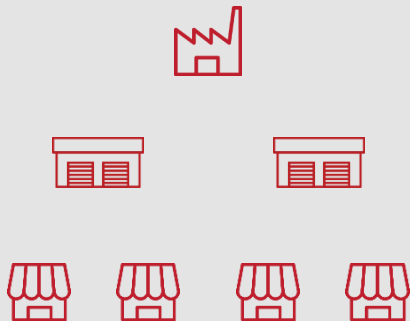
Orthodoxy fueled by
- Sales measures
  - Structures for commissions and bonuses

Sell-Out

Leveraging Technology

- Share sell-out data
- Offer to take back non-movers and slow movers, and replace with fast movers
- Discounts based on aggregated (estimated) volumes

PULL

PUSH
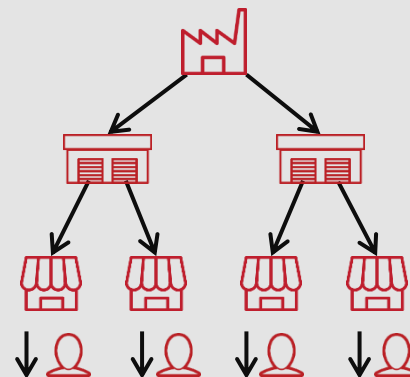
EXPLOITING SHELF SPACE

- *Improving replenishment frequency*
- *Reduce inventories and out of stock*
- *Replacing slow movers SKUs by fast movers SKUs*

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Production

Sell-In

Orthodoxy
- Large batches, produced relatively infrequently
- Demand periodically aggregated into fewer orders
- "Economic production order quantities"
- Strive for "as long lead time as we can get"
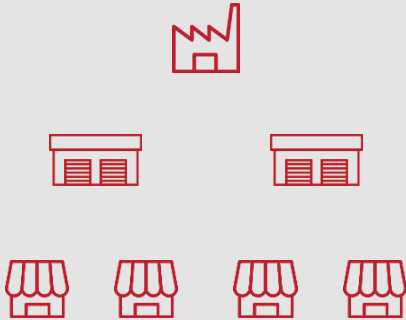
Orthodoxy fueled by
- Production measures
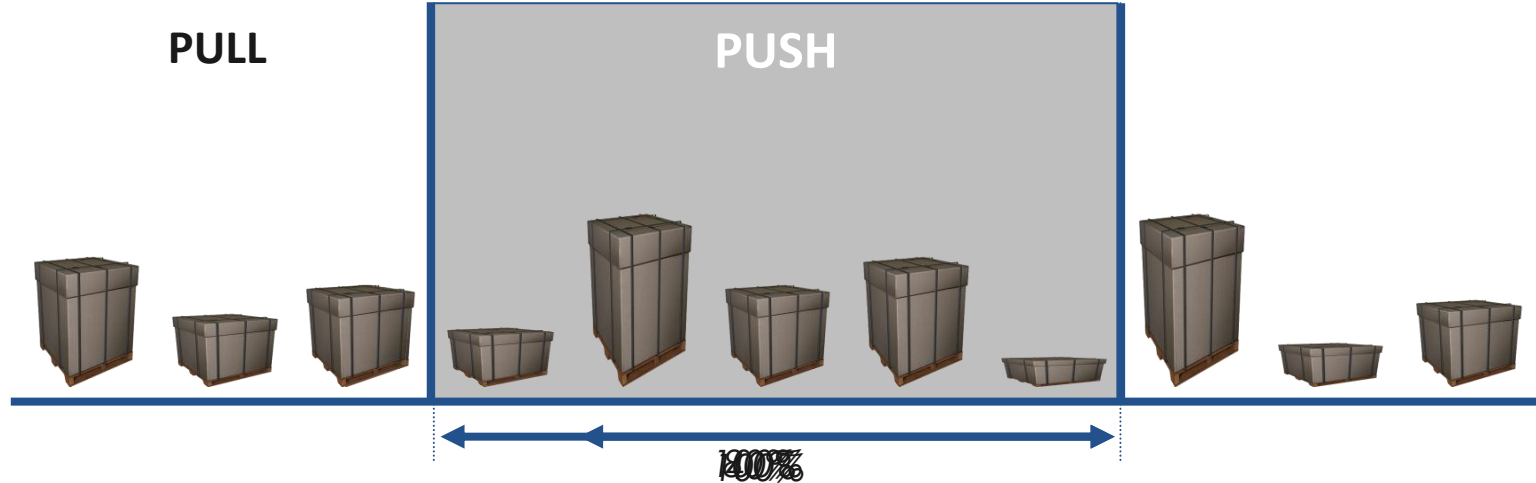 - Efficiency and utilization
  - Product cost assumptions

Sell-Out

Leveraging Technology
- Produce only what was consumed
  - Orders created daily according to what was consumed day before
  - Produce frequently, aggregating orders according to agreed aggregation guidelines
- Strive for short(er and shorter) lead times
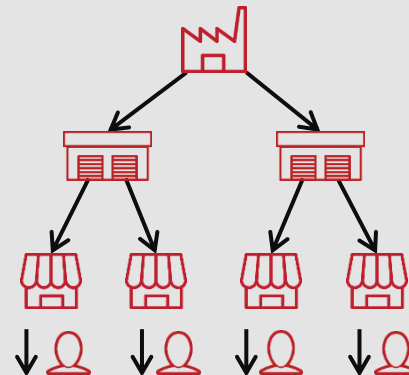
"*Tell me how you measure me and I´ll tell you how I´ll behave*"

Eliyahu Goldratt

Retailer View | Category: Coffee | Retail A

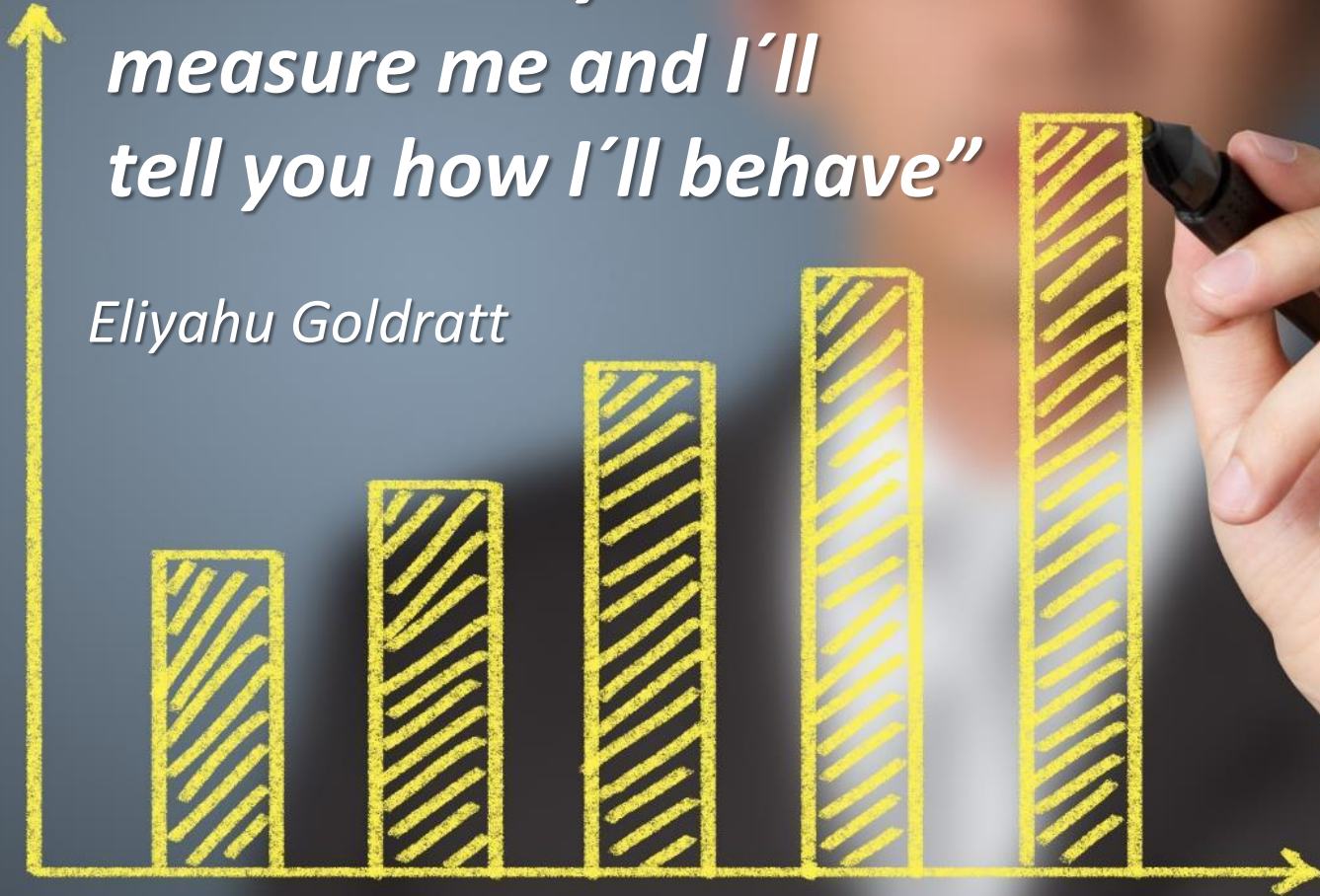| Activity Level	Manufacturers	SKU	%SKUs	SKUs Qty	Sales (R$)	Inventory (R$)	Turns	Margin (R$)	Margin/Average Inventory	Out-of-stock	OSA
⊟ Fast Movers	⊞ Manufacturer A		8,20%	10	363.678	141.796	31	47.436	33,4%	12,6%	90,2%
	⊞ Manufacturer B		9,02%	11	258.727	114.750	27	33.747	29,4%	5,5%	91,2%
	⊞ Manufacturer C		9,02%	11	384.961	228.224	20	50.212	22,0%	0,5%	95,2%
Total Fast Movers			*26,23%*	*32*	*1.007.367*	*484.771*	*25*	*131.395*	*27,1%*	*6,0%*	*92,3%*
⊞ Slow Movers			28,69%	35	294.316	249.321	14	38.389	15,4%	11,8%	92,1%
⊞ Ultra Slow Movers			38,52%	47	164.483	311.610	6	21.454	6,8%	15,4%	96,3%
⊞ Non Movers			6,56%	8	-	130.117	0	-	-	-	-
TOTL			100%	122	1.466.167	1.175.820	17	191.239	18,29%	12,0%	92,6%

Market Benchmark

Manufacturers		Turns		Out-of-stock	OSA
Manufacturer D		30		9,9%	93,7%
Manufacturer E		25		5,0%	92,6%
Manufacturer F		22		1,0%	83,2%
TOTAL		25		4,7%	91,7%

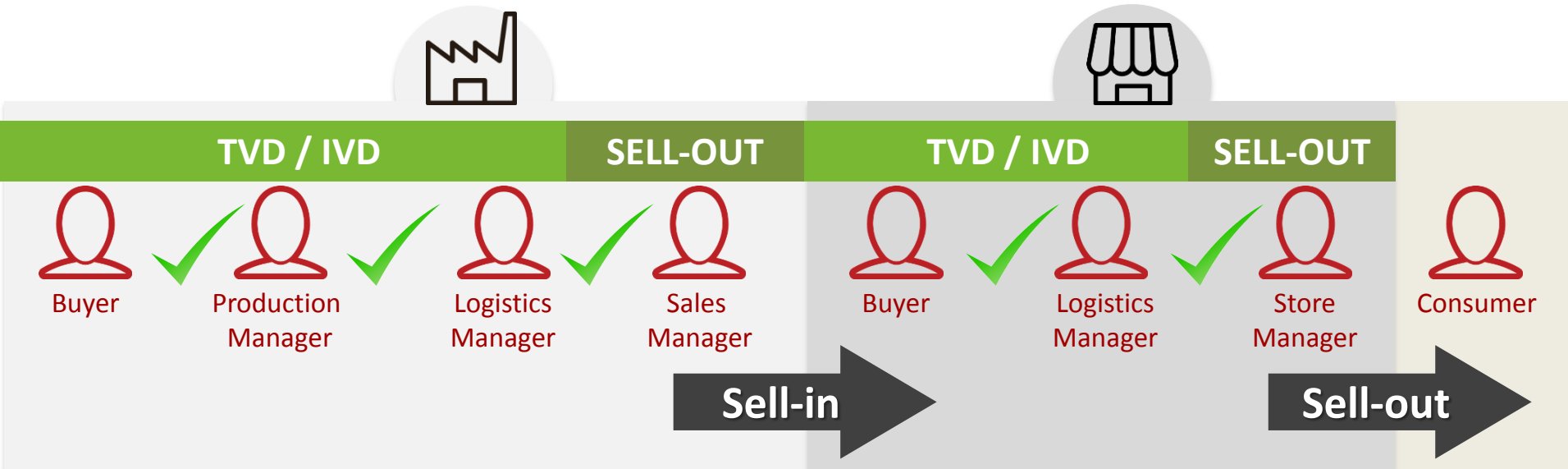# Manufacturer View | Category: Milk Modifiers
Manufacturer A

Activity Level	Retail	SKU	%SKUs	SKUs Qty	Sales (R$)	Inventory (R$)	Turns	Margin (R$)	Margin/Average Inventory	Out-of-stock	OSA
⊟ Fast Movers	⊞ Retail 1		5,00%	2	222.449	347.750	8	29.015	8,3%	1,5%	81,5%
	⊞ Retail 2		7,50%	3	329.120	173.148	23	4.680	2,7%	3,7%	92,0%
Total Fast Movers			*12,50%*	*5*	*551.569*	*520.897*	*13*	*33.695*	*6,4%*	*2,4%*	*86,5%*
⊞ Slow Movers			12,50%	5	114.042	186.422	7	22.682	12,1%	3,3%	83,2%
⊞ Ultra Slow Movers			45,00%	18	42.360	137.964	4	9.333	6,7%	7,4%	76,6%
⊞ Non Movers			30,00%	12	-	112.568	0	-	-	-	-
TOTAL			100,00%	40	707.971	957.851	10	65.710	7,77%	7,4%	85,6%

Market Benchmark

Manufaturas	%SKUs	SKUs Qty	Sales (R$)	Inventory (R$)	Turns	Margin (R$)	Margin/Average Inventory	Out-of-stock	OSA
My Company	12,50%	5	551.569	520.897	13	33.695	6,4%	2,4%	86,5%
Competitor	21,15%	5	191.293	196.253	22	20.209	10%	2,7%	94,4%

Focus on impact in all links

Information to guide right actions

TVD / IVD   SELL-OUT   TVD / IVD   SELL-OUT

Buyer — Production Manager — Logistics Manager — Sales Manager

Buyer — Logistics Manager — Store Manager — Consumer

Sell-in

Sell-out

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30%

is the average excess inventory reduction and out-of-stock reduction for our customers, including:

Electrolux

Whirlpool CORPORATION

Coca-Cola Vonpar

PEPSICO

ambev

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Case Study

*numbers are in thousands of dollars

Retail Chain	Inventory on-hand	Annual Sales	Inventory Turns
A	701	24.321	34,69
B	362	6.504	17,99
C	306	5.252	17,19
D	3.514	50.119	14,26
E	939	11.956	12,74
F	12.262	150.516	
Total	18.083	248.668	**13,75**

Retail Chain	Inventory on-hand	Annual Sales	Inventory Turns
G	1.064	14.112	13,26
H	5.762	68.893	11,96
I	708	5.389	7,61
J	915	6.609	7,22
K	1.889	12.867	6,81
L	12.686	85.750	6,76
M	6.513	32.696	5,02
N	12.758	62.479	4,90
O	20.191	91.310	
P	21.086	71.684	**7,15**
Total	83.572	451.789	

In conclusion…

"*Releasing organizations from their ORTHODOXIES is the REAL challenge.*"

Miguel Abuhab